REPORT

DATE: September 4, 2003

TO: Transportation & Communication Committee

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SUBJECT: Low Scenario Baseline Revenues & Proposed Funding Strategy for the Draft 2004 Regional Transportation Plan

EXECUTIVE DIRECTOR'S APPROVAL:

RECOMMENDED ACTION:

1) Approve the Hwy & Transportation Finance Task Force recommendation to use the low baseline forecast for analysis.

2) Approve the proposed public funding initiatives and continue to evaluate other potential revenue options. Further direct staff to continue exploring the proposed private funding strategy for developing the Draft 2004 RTP.

SUMMARY:

The baseline revenue forecast (comprising transportation revenues from existing local, state, and federal sources) was developed in the format of a range (low, medium and high as shown below) for the 2004 RTP:

1. HIGH RANGE: Assumes no revenue impacts to the forecast from the introduction of alternative fuels and greater fuel efficiency. Also, no impacts from the gradual transition to an aging society.

2. MEDIUM RANGE: Assumes impacts to revenues from the introduction of alternative fuels and greater fuel efficiency.

3. LOW RANGE: Assumes impacts to revenues from alternative fuels, fuel efficiency and the gradual transition to an aging society.

Recognizing the limitations of existing transportation revenue sources, the Highway & Transportation Finance Task Force developed the Draft 2004 RTP strategic transportation funding proposal for TCC consideration (funding strategy above the baseline):

- Protect/Strengthen Existing Transportation Revenues including Proposition 42
- Lower Voter Approval Threshold for Local Transportation Sales Taxes/Continue Local Sales Taxes Where Necessary
- Maximize Motor Vehicle Fuel Tax and User Fee Revenue Through Pay-as-you-go and Debt Financing
- Pursue Revenue-Backed Project Financing as Appropriate
- Consider the Feasibility of HOT Lanes for New Facilities
- Review Methods for Collecting Revenues from Alternative Fuel Vehicles

BACKGROUND:

The long-range revenue forecast for the 2004 RTP has been updated since the Task Force's adoption of three preliminary draft revenue scenarios at the February meeting. The scenarios consist of a high, medium and low revenue forecast covering years 2002-2030, with regional assumptions underlying each scenario. The primary assumptions differentiating each scenario can be summarized into the following:

Revenue Scenario	Regional Assumptions
High	No revenue impacts from clean air quality goals or aging of the population.
Medium	Revenue impacts from clean air quality goals.
Low	Revenue impacts from clean air quality goals and aging of the population.

Prior technical work conducted by SCAG determined that for the region to achieve stated clean air quality goals by the year 2010, gasoline consumption would be drastically reduced in combination with engine technology advancements and introduction of alternative fuels. The potential loss of gasoline consumed by motor vehicles was modeled to determine the potential revenue reductions in funding sources that rely on gas taxes. The result from this reduction essentially accounts for the difference between the high and medium scenarios.

SCAG staff has also determined that the gradual aging of the population could also impact the revenues for transportation over the long-term for at least two possible reasons. The first is that in general, seniors would spend a greater proportion of income on non-taxable items such as medicines, and less on taxable items. Sales taxes contribute a substantial portion of transportation revenues. Second, older seniors who cannot drive anymore and who would become a larger percentage of the general population would transition to alternative modes of transportation such as transit/paratransit. This would compound the potential loss of gasoline consumption.

The potential revenue consequences from the aging population was modeled and determined to have an additional impact. This additional impact accounts for the difference between the medium and low scenarios.

The modeled regional revenues from each scenario is as follows:

Revenue Scenario	Revenues (billions)
High	$144
Medium	$123
Low	$120

Proposed Funding Strategy Beyond the Baseline

During the last several months the Highway and Transportation Finance Task Force has overseen several activities associated with the preparation of the 2004 Regional Transportation Plan's financial strategy. These activities have included updating cost and revenue estimates, which are calculated in 2002 dollars for the 2004 RTP, forecasting revenues from 2002 through 2030, and evaluating several new and innovative revenue sources. On the basis of the Task Force's actions and policy direction, the following funding strategy for the 2004 RTP was developed.

1. **Protect/Strengthen Existing Transportation Revenues**

   In the 2001 RTP, an important strategy was the commitment of sales tax revenues from gasoline to transportation purposes. Proposition 42, approved by the voters in March 2002, provides a guarantee in the state constitution that these funds will be available for transportation purposes. This will result in $3.3 billion in the revenue baseline for projects in the 2004 RTP. However, a caveat placed in the constitution allows this revenue to be diverted to the state's general fund if the governor recommends such an action and the legislature agrees by a two-thirds vote.

   The diversion provision introduces considerable uncertainty in the availability of the revenue, resulting in a reluctance to commit the funds to long-term transportation projects, and interference with the flow of revenues committed to transit and local governments for street/road operations and maintenance. To rectify this situation and ensure that the Proposition 42 revenue is available when needed, the constitution should be amended to remove this provision. This would make the sales tax on gasoline a truly viable revenue source.

Additionally, Caltrans recently reported that revenue assumptions made in the 2002 STIP Fund Estimate were more optimistic than is currently expected – the State Highway Account (SHA) cash balance is projected to fall below planned levels primarily due to lower than expected truck weight fee revenues and gas tax receipts. It is critical to rectify this shortfall situation where possible by further adjusting the truck weight fee schedule to ensure a stable revenue stream. Truck weight fees are one of the primary sources of SHA funding. Chapter 861, Statutes of 2000 (SB 2084, Polanco), changed the way a portion of the weight fees is collected in order to be more consistent with the practices of other states. The change was intended to be "revenue neutral," meaning that it would not affect the total amount of weight fees collected annually. However, actual weight fee revenue in 2001-02—the year the new fee schedule took effect—was 15 percent less than the amount estimated.

2. **Allow 55% Voter Approval for Local Transportation Sales Taxes/Continue Local Transportation Sales Taxes Where Necessary**

   This was a component of the funding strategy in the 2001 RTP. Since the adoption of that plan, Riverside County voters approved a thirty-year extension of its local transportation sales tax, which will provide the county with about $3.1 billion through 2030. The successful extension of local transportation sales taxes in San Bernardino and Imperial counties is forecasted to provide an additional $3.6 billion in revenue through 2030.

   To facilitate the passage of these taxes, the state constitution should be amended to allow passage with a 55 percent majority instead of the currently required two-thirds majority. Several constitutional amendments have been introduced in the 2003-2004 session of the state legislature that would provide for this change – requires placement on a statewide ballot and voter approval.

3. **Maximize Motor Vehicle Fuel User Fee Revenue Through Pay-as-you-go and Debt Financing (Gas Tax Increase)**

   An important element in the 2001 RTP's revenue strategy was a 5 cents per gallon increase in the motor vehicle fuel tax in 2010 and an additional penny annually between 2011 and 2015, for a total 10 cents increase. For the 2004 RTP, it is proposed that a portion of the revenue stream from that increase be committed to the issuance of debt to raise up front revenues to fund RTP projects. The remaining portion of the revenue generated from the incremental increase in the state gas tax could be utilized for direct pay-as-you go projects. Additionally, GARVEE bond financing (Grant Anticipation Revenue Vehicles) should be employed where feasible, pledging future federal funds to accelerate the 2004 RTP project development process.

This proposal would require state implementation legislation. However, with the existing authorization of debt financing using federal fuel tax revenue (GARVEE), we believe that this establishes a precedent that the state of California should follow.

4. **Review Methods for Collecting Revenues from Alternative Fuel Vehicles**

During the thirty years covered by the 2004 RTP, it is likely that sources of energy for the motor vehicle fleet will become quite diverse and fuel efficiency of engines can be expected to increase. Recognizing this, SCAG should seek funding in the federal transportation reauthorization legislation to begin research on alternative transportation user fee collection mechanisms for various fuel/ vehicle engine combinations in order to collect user-based revenues to finance future transportation improvements.

5. **Consider the Feasibility of HOT Lanes for New Facilities**

High occupancy/toll lanes may be proposed for the "outer ring" area of the region. Assuming that the peak hour charge would be 40 cents per mile and that 10 percent of the VMT on the toll lanes would be paying, it is estimated that about $1 billion would be raised for use in the HOT lane travel corridors through 2030.

6. **Pursue Revenue-Backed Regional Project Financing**

There are several one-of-a-kind major regional projects proposed in the 2004 RTP, including the proposed MagLev system, truck lane facilities, and freight railroad system improvements. The three proposals are to be debt financed and backed by user charges. The proposed debt financing instruments including tax-exempt revenue bonds and tax credit bonds facilitate public-private partnerships -- most critical to addressing some of the region's infrastructure funding issues.

In recognizing that there are limited public resources available to address many large-scale transportation infrastructure projects in the region, this strategy simply provides that the region will consider the feasibility of using innovative public-private partnership arrangements to develop transportation infrastructure where such financing strategies are applicable. In particular, these financing arrangements are most feasible where we have identified projects capable of generating their own stream of revenues to offset capital development, operations and maintenance as well as any associated debt service costs.

Summary of the 2004 Regional Transportation Plan's Funding Strategy

Summary of the Proposed Funding Strategy for
the 2004 Regional Transportation Plan
(In 2002 constant $'s)

	Amount in Billions
Baseline Revenues	
Local Revenue	$90.7
State Revenue	17.7
Federal Revenue	11.6
Total Baseline Revenues	**120.0**
New Revenues	
Public Funding Strategy	
Continuation of the Local Transportation Sales Tax	$3.6
Adjust Motor Vehicle Fuel Tax/User Fee (Pay-as-you-go & Debt Financing)	21.7
Private Funding Strategy	
Pursue Revenue-Backed Projects/Private Financing	$48.4
HOT Lanes for New Facilities	1.0
Total New Revenues	**74.7**
Total Forecasted Revenues for the 2004 RTP	**$194.7**

FISCAL IMPACT:
All work related to approving the recommended staff action is contained within the adopted FY2003/2004 budget.

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TCC Sept. 04, 2003